CYBERSURF® CORP. ANNUAL REPORT 2001

DEVELOPING INTERNET SOLUTIONS THROUGH VISION, TALENT AND TECHNOLOGY ■ HTTP://WWW.CYBERSURF.COM

CYBERSURF CORP. IS A LEADING INTERNET TECHNOLOGY COMPANY
THAT DEVELOPS INNOVATIVE INTERNET SOFTWARE SOLUTIONS FOR USE BY GLOBAL PLAYERS.

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Cybersurf has had the remarkable fortune of being born at the focal point of the Internet revolution - a revolution that fundamentally has changed how people communicate, how information is shared, and how business is conducted. Because we were there at the beginning, and because our ideas were executed by some of the brightest minds in the industry, we consistently have set the precedent for many conventions of the Internet medium, such as online banking, application service provision and advertising-supported Internet access.

As Cybersurf's mission statement declares, our goal has always been to develop Internet solutions through vision, talent and technology. To us, vision is the ability to create new ideas and the foresight to predict the changes of a fickle and continuously evolving marketplace. In an industry as dynamic as ours, vision alone does not ensure success. A company requires a team of talented individuals who can bring innovative ideas to fruition and who can adapt quickly in the face of a changing environment. Cybersurf is a company with vision, built on innovative ideas and fuelled by the talent, passion and industry of its employees. Cybersurf's powerful combination of vision and talent has allowed us to develop exciting, industry-leading technologies for consumers and Internet businesses alike, and also has given us the tools to weather the many shifts of the Internet industry.

This past year has put our vision and talent to the test and I am pleased to report that we have come through it with renewed determination and purpose. With the launch earlier this year of 3webXS, our premium fee-based Internet access service, we were successful in strengthening our Internet presence in Canada while at the same time quickly responding to a market situation that spelled the end for most free Internet businesses. As a result, we have a strong and growing core business with 3webXS - a service that offers the highest possible quality Internet access at the lowest possible price, and that derives a secondary revenue stream from advertising sales as a source of incremental profit.

3webXS is one of the revenue-building initiatives that Cybersurf introduced during this past year as part of our path-to-profitability strategy and we see it as the financial engine that will help us to realize our goal of profitability during the current fiscal year. Cybersurf is working hard to grow 3webXS into Canada's largest Internet service, while at the same time pursuing lateral opportunities, such as the international licensing of the proprietary technologies behind the 3webXS service, and the marketing of Cybersurf's Mimica animation design software.

Prospects for 2002

Fiscal year 2002 will be a defining year for Cybersurf. As we look to the future, our commitment to the creation of leading-edge, revenue-driven Internet products offers significant opportunities for consumers, for Internet companies and for our shareholders. In the coming months, we will continue to focus on our existing Internet technologies such as the 3webXS application software and our Mimica animation design software, making them more accessible and relevant to consumers and Internet businesses than ever before.

In closing, I would like to acknowledge the company's dedicated employees. They have been the driving force behind Cybersurf's many milestones; they have shown strength in the face of adversity; and they will shape the company's future in the months and years to come. I also wish to thank our shareholders, business partners and customers for your continued support. All of us at Cybersurf look forward to making 2002 the best year ever for all of you.

Paul Mercia

President, C.E.O. Cybersurf Corp.

Cybersurf Corp. ("Cybersurf" or the "Corporation") operates through two wholly owned subsidiaries, Cybersurf Technologies Corp. and 3web Corp.

Cybersurf Technologies Corp. is responsible for the development of Internet-related software products and services, and for all implementation and licensing initiatives pertaining to these unique technologies. 3web Corp. utilizes Cybersurf Technologies Corp.'s products and services in its national premium fee-based Internet service, 3webXS.

Cybersurf is led by its founder, Paul Mercia, who credits the company's success to an entrepreneurial and highly committed team located in offices in Calgary and Toronto.

About Cybersurf Technologies Corp.

Cybersurf Technologies Corp. develops innovative software solutions for Internet Service, Internet Portal and New Media applications. Some of the company's proprietary solutions include network optimization and service quality enhancement tools; direct user targeting and guaranteed ad message delivery software; a comprehensive, turnkey portal that any ISP can adopt as its own; and animation technology that enables television-quality content to be uniquely delivered to any user's desktop in seconds.

For more than 5 years, Cybersurf has developed innovative, leading-edge software applications to fully exploit the Internet's potential as a business tool. This history of innovation began in 1994 with the development of the world's first remote access application service provision system, the Virtual T1. Cybersurf also was the first company in the world to facilitate online banking transactions through its FirstLink software. The most recent innovative achievements of Cybersurf Technologies Corp. include enhancements to the proprietary technologies that support the 3webXS service, and the development of a commercial beta version of the Mimica animation software.

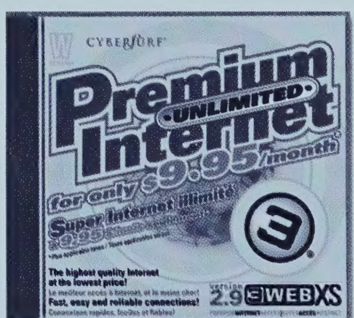
The software developed by Cybersurf Technologies Corp. creates revenue-generating and cost-cutting opportunities for any Internet company focused on client acquisition, content delivery or advertising revenue, elements vital to any company in the Internet sector. These proprietary software solutions offer tremendous potential for widespread application and demand and, together with its partners, Cybersurf is exploring licensing opportunities related to these unique technologies in Canada, the United States, Europe and Latin America. Cybersurf's goal is to leverage these efforts to transform itself from a market leader in Canada into a global player in the Internet technology arena.

About 3web Corp.

3web Corp. operates the Corporation's Internet access business and is the first company in the world to showcase the various proprietary software applications developed by Cybersurf Technologies Corp.

The company originally launched a free Internet service in August 1998, which it rapidly and successfully developed into Canada's largest free Internet service. Most recently, 3web Corp. has shifted its focus from free to fee-based service with the launch of 3webXS, a service designed to provide the highest possible quality at the lowest possible price. Already, 3web Corp. has been able to leverage its knowledge, experience, relationships and past success in the Internet access business. As a result, 3webXS has grown into one of Canada's leading Internet services. Through 3webXS, 3web Corp. provides its subscribers with premium, unlimited Internet access at a fraction of the cost of other competing services.

3web Corp.'s immediate goals include the creation and launch of a low-cost high-speed Internet service. Currently, 3web provides service in 22 major centres including Calgary, Chicoutimi, Edmonton, Halifax, Hamilton, Hull, Kitchener, London, Montréal, Oshawa, Ottawa, Québec City, Sherbrooke, St. Catharines, Saint John, St. John's, Sudbury, Toronto, Trois-Rivières, Vancouver, Windsor and Winnipeg.



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of Cybersurf Corp. (the "Corporation") should be read in conjunction with the Corporation's consolidated financial statements (including notes) that appear later in this document.

The following discussion contains forward looking statements about matters that involve risks and uncertainties, such as statements of Cybersurf's plans, objectives, expectations and intentions, as well as financial trends. The discussion includes cautionary statements about these matters. You should read the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this document. Factors that could cause or contribute to such differences include those discussed in the section titled "Risks Relating to Cybersurf Corp. and the Internet Industry", as well as those discussed elsewhere herein.

The 12 months ended June 30, 2001 are sometimes referred to as "fiscal 2001". The 12 months ended June 30, 2000 are sometimes referred to as "fiscal 2000". References to "fiscal 2002" or "the current fiscal year" are to the 12 month period that commenced July 1, 2001.

Overview

Cybersurf Corp. is an Internet technology company that combines an Internet access business reaching over 70% of Canadians with a software development business creating products for a worldwide market. Effective December 31, 2000, the Corporation reorganized in order to facilitate, among other things, the growth of its two distinct businesses. The Corporation now operates through two wholly owned subsidiaries: Cybersurf Technologies Corp. and 3web Corp. Cybersurf Technologies Corp. is engaged in the software development business and 3web Corp. operates the Corporation's Internet access business. Prior to the December 31, 2000 reorganization, the businesses of Cybersurf Technologies Corp. and 3web Corp. were part of the Corporation's Cybersurf Interactive Media division.

The Corporation also holds interests in three joint venture companies; Cybersurf LA Holdings Ltd., Cybersurf US Holdings Ltd., and Cybersurf Euro Holdings Ltd. The discussion and financial information presented below are, unless otherwise indicated, reflective of Cybersurf Corp. on a consolidated basis.

Cybersurf Corp. Year in Review

The past two years have been quite turbulent for most technology companies and Cybersurf was no exception. When fiscal 2001 commenced, we were engaged in an aggressive campaign to grow the number of subscribers to 3web, our free Internet access service. During the fiscal year, the Corporation released the beta version of our Mimica animation software as part of ongoing efforts to develop the Cybersurf Technologies Corp. business. By the end of fiscal 2001, we had shifted the strategy of our Internet access business and had launched 3webXS, a fee-based Internet access service for which we were aggressively seeking subscribers. Over the course of the summer of 2001, 3web Corp. terminated its free Internet access service.

Although the online advertising market had begun to show some signs of slowing growth at the beginning of fiscal 2001, there were many indications that it, at the very least, would not decline from prior years. Because the 3web free Internet access service was dependent upon online advertising revenues to finance its continued operation and growth, this segment of the Corporation's business was significantly exposed to changes in the online advertising market.

By winter 2001, it had become clear that the Canadian online advertising market was much weaker than initially expected. Consequently, we realized that for 3web Corp. online advertising revenues were not going to develop as expected and, in any event, that such revenues were not going to be sufficient to cover the costs of providing free Internet access. As a result, the Corporation adopted a path-to-profitability strategy that focused on the aggressive implementation of revenue-building and cost-cutting initiatives. Among the cost-cutting initiatives was an internal restructuring that involved the lay-offs of approximately 33% of our work force. Management believed that this initiative was essential to preserve the Corporation's financial resources and to ensure that sufficient resources would be available to finance a revised business model of the Internet access business, primarily focused on subscription revenue as opposed to online advertising revenue.

Sources of Revenue

The Corporation has traditionally derived revenues from a variety of sources. With respect to the Internet access business now operated by 3web Corp., revenues were generated primarily from sales of online advertising and distribution of CD-ROMs containing access software.

This business also generates revenues from providing high-speed Internet access services to commercial customers. During fiscal 2001, 3web Corp. introduced two new revenue streams: subscription fees and fees for "live" technical support. For the current fiscal year, management expects 3web Corp.'s primary source of revenue to be subscription fees.

With respect to the Corporation's software development business now operated by CybersurfTechnologies Corp., revenues were generated primarily from fees earned from software development and multimedia development.

The Corporation also has earned revenues from the sale of licences related to the 3web software in the Calgary and Edmonton markets; however, these sales have not been, and are not expected to be, recurring sources of revenue.

Classification of Expenses

Operating expenses include communication costs, salaries and benefits related to the Internet access and software development businesses now operated by 3web Corp. and CybersurfTechnologies Corp., respectively. The communication costs included in operating costs are the Internet communication charges incurred in providing Internet access to subscribers, as well as technical salaries. General and administrative expenses include sales and marketing expenses, management and administration salaries and benefits, the costs of leasing facilities in Calgary and Toronto as well as the costs of managing and operating those locations. This category of expenses also includes all of the other costs associated with running a national company, including travel, accommodation, training, finance and legal.

Year ended June 30, 2001 compared to year ended June 30, 2000

As a result of the reorganization of the Corporation on December 31, 2000, we have included separate discussion relating to the revenues and certain costs of 3web Corp. and Cybersurf Technologies Corp., in addition to discussion relating to Cybersurf Corp. on a consolidated basis.

Revenue - Cybersurf Corp.

The Corporation generated revenues of $4,304,903 during fiscal 2001, an increase of $1,795,537, or 72% over the prior fiscal year. The increase in revenues is attributed primarily to 3web Corp., which accounted for $2,398,956 (or 56%) of total revenues. Interest income for fiscal 2001 was $1,073,708, compared to $970,057 in the prior fiscal year.

Revenue - 3web Corp.

3web Corp.'s revenues of $2,398,956 for fiscal 2001 are comprised of $1,047,317 from CD-ROM distribution, $978,440 from advertising, $277,165 from management fees relating to the Edmonton and Calgary licences related to the 3web software, and $96,034 from the provision of inbound telephone technical support. During fiscal 2000, the divisions that now form 3web Corp. generated revenues of $789,547 (or 31% of total revenues in that fiscal year), with $415,367 from CD-ROM distribution, and $374,180 from advertising. The growth in CD-ROM distribution and advertising revenues during fiscal 2001 was facilitated by the expansion of the 3web service area to an additional 18 cities during the year and through distribution arrangements with 3web's co-branding partners. By extending the service area to additional markets, 3web Corp. was able to offer CD-ROMs for sale in each of the 22 markets to which its service extends. With an expanded service area and a growing subscriber base, 3web Corp. was able to attract more advertising revenue during fiscal 2001 than in fiscal 2000.

Revenue - Cybersurf Technologies Corp.

CybersurfTechnologies Corp. generated revenues of $832,239 during fiscal 2001. These revenues were earned from software development services and Internet service fees. During fiscal 2000, the divisions that now form Cybersurf Technologies Corp. generated revenues of $749,761 (or 30% of total revenues in that fiscal year).

Operating Expenses - Cybersurf Corp.

Overall operating costs increased by 57% during fiscal 2001, up from $6,438,444 in fiscal 2000 to $10,122,949 in fiscal 2001. This increase is primarily attributed to higher operating costs of 3web Corp.

Operating Expenses - 3web Corp.

3web Corp.'s operating costs for fiscal 2001 were $9,274,891 of which 63% or $5,863,757 was Internet communication charges. During fiscal 2000, Internet communication charges were $3,097,202. This increase of $2,766,555 in Internet communication charges is a result of the significant increase in the number of subscribers to the free 3web service throughout the year.

The balance of 3web Corp.'s operating costs for fiscal 2001 are attributed as follows: $2,585,186 in salaries and benefits, $503,301 in CD-ROM distribution, and $322,647 in provincial sales taxes. During the first part of fiscal 2001, salary and telecommunication costs relating to 3web Corp.'s

Operating Expenses - 3web Corp. (Continued)
inbound telephone technical support centre grew significantly, a result of the substantial increase in the number of subscribers to the 3web free service. While many of the calls received were related to 3web software or connectivity issues, many other calls were for issues unrelated to 3web. Management determined that in order to control such costs, it was necessary to commence charging subscribers a fee for inbound telephone technical support. During the third quarter of fiscal 2001, management discontinued toll-free inbound telephone technical support and implemented a fee-based structure. The fee-based structure was successful in reducing call volume and duration.

Operating Expenses - Cybersurf Technologies Corp.
Operating costs for Cybersurf Technologies Corp. for fiscal 2001 were $848,058, with the majority being salaries and benefits.

Depreciation and Amortization Expenses - Cybersurf Corp.
Depreciation expenses in fiscal 2001 rose to $1,574,565, up from $1,192,415 in fiscal 2000. This increase is due to the acquisition of new software primarily for the expansion of the Internet access business in addition to hardware and software associated with the implementation of the inbound telephone technical support centre for that business. Amortization expenses decreased by $295,924 in fiscal 2001 due to the write-off of goodwill from the acquisition of Dognet Communications Corp. at June 30, 2000.

General & Administrative, Marketing and Selling Expenses - Cybersurf Corp.
Overall general & administrative, marketing and selling expenses for fiscal 2001 were $6,580,279 compared to $2,952,438 for fiscal 2000, an increase of $3,627,841 or 123%. This increase was due to a number of factors, including the fact that in fiscal 2001 the Corporation increased the size of its management team and in prior fiscal years most management salaries and benefits were attributed to operating expenses.

Other significant general and administrative expenses are as follows:	Fiscal 2001 $	Fiscal 2000 $
Premises Rent	493,189	240,339
Wages & Benefits	1,514,281	484,506
Legal	332,780	44,679
Travel	53,596	121,640
Professional Services	158,405	37,966
Annual Meeting Costs	194,762	33,094

Approximately $350,000 in general & administrative expenses in fiscal 2001 was attributed to the dissident shareholder proxy action and legal costs associated with the Growth Tech '98 Limited Partnership litigation.

Overall marketing and selling expenses for fiscal 2001 were $2,260,551, compared to $1,383,788 for fiscal 2000. 3web Corp. accounted for $2,203,600 or 97% of overall marketing and selling expenses. The nearly doubling of marketing and selling expenses in fiscal 2001 is attributed to the launch of the 3web service in 18 additional cities during the year. An increase in the number of advertising sales staff for 3web Corp. also contributed to the higher expenses in this category.

Subsidiary Expenses
The consolidated operations of Cybersurf LA Holdings Ltd., Cybersurf US Holdings Ltd., and Cybersurf Euro Holdings Ltd. represented a net loss of $131,914 in fiscal 2001.

Net Loss
For the 12 months ended June 30, 2001, the Corporation had a net loss of $14,057,944 or $.44/share, compared to a loss of $8,589,389 or $.34/share for the 12 months ended June 30, 2000. This loss was primarily the result of the inability of 3web Corp. to generate sufficient online advertising revenue to offset increased Internet communication charges.

During fiscal 2001, management determined that the free Internet access business model of 3web Corp. was not sustainable given the then current and expected conditions in the online advertising market. As a result, 3web Corp. undertook to launch 3webXS, a fee-based Internet access service. The monthly subscription fee for 3webXS was set at an amount that would be sufficient to offset Internet communication costs associated with providing Internet access to the subscriber and to provide a satisfactory gross margin.

Balance Sheet

The Corporation's balance sheet, which has been strong throughout the past two fiscal years, is one of the key factors that has allowed for the continued growth of the core businesses. As at June 30, 2001, the Corporation's cash and short term deposits was $12,287,024, compared to $22,794,963 at the same time in the prior year. Most of the funds used by the Corporation during fiscal 2001 were for operations.

The overall decrease in cash and short term deposits of $10,507,939 through the course of fiscal 2001 represents an average burn rate of $875,662 per month. Efforts were made to reduce the burn rate significantly in the third and fourth quarters of fiscal year 2001, primarily through cost-reduction initiatives. These cost-cutting initiatives, combined with revenue-building initiatives undertaken contemporaneously, significantly reduced the average monthly burn rate during the fourth quarter of fiscal 2001 and thereafter.

Working capital at June 30, 2001 was $13,146,791, compared to $27,245,499 at the same time in the prior year, a reduction of $14,098,708. During fiscal 2001, 3web Corp. utilized $3,791,442 in Sprint Canada prepaid services, which contributed to this reduction. It is anticipated that the remainder of the Sprint Canada prepaid services will be expensed during fiscal 2002.

Accounts receivable decreased during fiscal 2001 by $460,600 as a result of increased collection efforts.

Inventory, comprised of CD-ROMs containing access software for 3web's free service, was written off at year-end.

Deferred development costs at June 30, 2001 increased to $182,603, compared to $38,103 at the same time in the prior year. This increase was the result of Cybersurf Technologies Corp.'s ongoing development of new software products that are not yet available to the market. These deferred development costs will be expensed over two years as the products are released to the market.

Other assets increased to $63,853 from $36,970 as a result of patent and trademark costs associated with 3web Corp.'s intellectual property.

Accounts payable decreased to $428,953 at June 30, 2001, from $1,295,664 at the same time in the prior year. This figure is comprised of current trade payables for 3web Corp.

The current portion of lease obligations is related to two leases. The first is a software capital lease, which matures in October 2001, with an exercise option of $1. The second is a hardware capital lease, which matures in May 2002. This hardware lease carries a buyout option of approximately $250,000.

Contributed share capital was $39,896,108 at June 30, 2001, compared to $39,815,023 at June 30, 2000. This increase of $81,085 was the result of the exercise of 657,500 options, as well as the stock buy back of 35,000 common shares.

Liquidity and Capital Resources

During the past two fiscal years, the Corporation has not generated sufficient revenues to finance operations. The Corporation primarily has relied upon its cash and prepaid expenses to meet its ongoing obligations. As indicated above, during fiscal 2001, the Corporation's working capital declined by $14,098,708 to $13,146,791 as at June 30, 2001. Operating activities during fiscal 2001 resulted in a use of cash of $8,752,393, compared with $10,443,638 in fiscal 2000.

Cost-cutting initiatives undertaken by the Corporation during the third and fourth quarters of fiscal 2001, combined with additional initiatives during the current fiscal year, have significantly reduced the Corporation's monthly operating expenses. In addition, revenues generated from 3webXS subscription fees, which were not material in fiscal 2001, are expected to grow during the current fiscal year and reduce the Corporation's requirement to finance operations from cash reserves.

Management's objective for fiscal 2002 is for 3web Corp. to be cash flow positive and for the Corporation to be profitable on an ongoing basis. Management believes that, under current conditions, the Corporation's cash reserves are sufficient to continue to finance operations for the next several years. Management does not anticipate that it will be necessary to seek additional capital or other financing in connection with the Corporation's operations for the foreseeable future.

Financing activities during fiscal 2001 produced a use of funds of $409,659, compared with a $35,674,139 source of cash in fiscal 2000 generated through two private placements of securities.

Liquidity and Capital Resources (Continued)

Investing activities during fiscal 2001 produced a use of funds of $1,345,887, compared with a use of funds of $2,481,020 in fiscal 2000. Decreased capital expenditures during fiscal 2001 was the primary factor for this reduction.

Risks Relating to Cybersurf Corp. and the Internet Industry

The risks and uncertainties described below are not the only risk factors affecting the Corporation. Additional risks and uncertainties not presently known to Cybersurf Corp. or that are currently deemed immaterial also may impair the Corporation's business operations. If any of the following risks actually occur, the business, results of operations and financial condition of the Corporation could be materially and adversely affected.

Limited Operating History

The Corporation has recently implemented significant changes to the business model of its Internet access business and this business model should be regarded as unproven. The Corporation may make additional changes to its business model in the future. These factors make it difficult to evaluate or predict the Corporation's performance.

Although a number of other businesses provide services similar to those provided by the Corporation, there can be no assurance that the Corporation's Internet access business will achieve the same results. If the Corporation is not able to develop sufficient revenues from subscription fees, it may not be able to grow the Internet access business, compete effectively or achieve profitability.

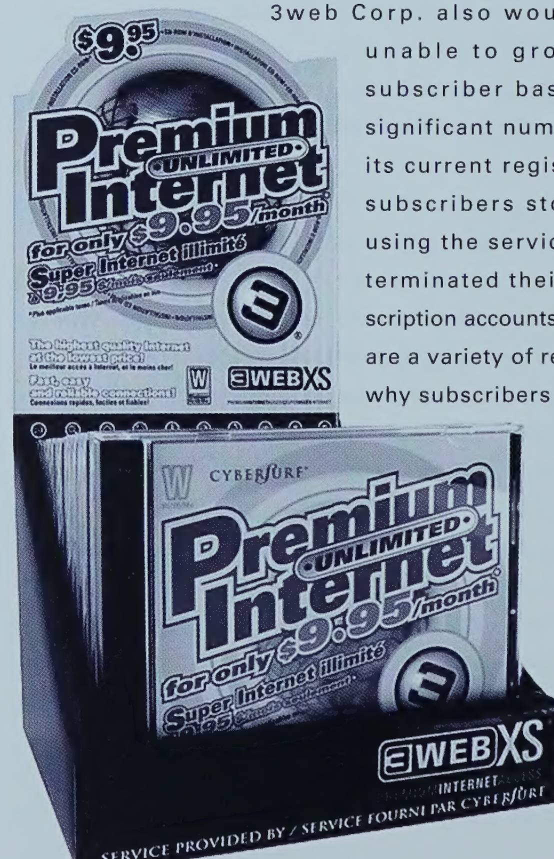
The Corporation's software development business to date has not been able to commercialize any of its products or services to a significant degree. There can be no assurance that any such products or services will be successfully commercialized in the future.

Necessity to Grow Subscriber Base

Growth in the number of paying subscribers for the Internet access business is critical to the Corporation's future success. If 3web Corp. is unable to grow its subscriber base, it may not be able to generate sufficient revenues to offset its costs.

In connection with its free service, 3web Corp. relied extensively upon its co-branding partners to promote and distribute CD-ROMs containing access software for its service, thereby minimizing customer acquisition costs. There can be no assurance that 3web Corp. will be able to enter into similar arrangements with other partners in connection with the 3webXS service. If 3web Corp. is not able to enter into similar arrangements, 3web Corp. may have to rely upon other channels to promote its service and to distribute CD-ROMs.

If these promotion and distribution channels prove more costly or less effective than anticipated, it could adversely impact 3web Corp.'s ability to grow its subscriber base. The average cost to acquire a customer in the Internet access industry is higher than what the Corporation anticipates spending and there is no assurance that the Corporation will be able to acquire new subscribers at a reasonable acquisition cost. 3web Corp. also would be unable to grow its subscriber base if a significant number of its current registered subscribers stopped using the service and terminated their subscription accounts. There are a variety of reasons why subscribers would



discontinue using the service, including:

- other services may offer a lower price;
- reliability issues may cause user dissatisfaction; and
- 3web Corp.'s policy of charging customers for live technical support may frustrate users who have difficulty using the service.

There is no assurance that 3web Corp. will be able to successfully address these issues and retain its existing subscriber base. If 3web Corp. experiences a decrease in its subscriber base, the business, results of operations and financial condition of the Corporation may be adversely impacted.

Reliance on Telecommunications Carriers

The Corporation's Internet access business substantially depends on the capacity, affordability, reliability and security of its telecommunications networks. The Corporation relies upon Sprint Canada and Bell Nexxia as its primary providers of network services, although in certain circumstances other providers can be used. Both Sprint Canada and Bell Nexxia provide similar services to businesses that compete with the Corporation, including businesses operated by or affiliated with Sprint Canada and Bell Nexxia. Only a small number of providers offer the network services that the Corporation requires. There has been significant consolidation in the telecommunications industry, and there is a significant risk that further consolidation could make the Corporation reliant on an even smaller number of providers. Any or all of Cybersurf's current telecommunications service providers could decide not to provide it with service at rates acceptable to the Corporation, or at all, in which event, the Corporation may not be able to provide Internet access to its subscribers. If the Corporation's third-party telecommunications service providers deliver unacceptable service, the quality of Cybersurf's Internet access service would suffer. In this event, the Corporation likely would lose subscribers who are dissatisfied with its service.

Since it does not have direct control over its telecommunications carriers' network reliability and the quality of the network, there is no assurance that the Corporation will be able to provide consistently reliable Internet access for its subscribers.

The Corporation's margins are highly sensitive to variations in prices for the telecommunications services it purchases. The Corporation's Internet access business could be harmed if the prices charged to it for telecommunications services are increased. In addition, the availability and pricing of telecommunications services varies geographically, and the Corporation may not be able to obtain new or substitute telecommunications services in certain geographic areas on commercially reasonable terms, if at all. There is no assurance that the Corporation's telecommunications service providers will continue to provide their services on commercially acceptable price terms, or that alternative services will be available on similar terms.

Operating Losses

As at June 30, 2001, the Corporation had an accumulated deficit of $24,241,725. The Corporation's ability to achieve profitability or positive cash flow in the future will depend upon its ability to increase revenues. The Corporation cannot be certain that it will be able to grow revenues or that it will obtain sufficient revenues to achieve profitability or positive cash flow. If it does achieve profitability, the Corporation cannot be certain that it can sustain or increase profitability on a quarterly or annual basis thereafter.

Competition to Provide Internet Access Services

The Corporation currently competes or expects to compete for users with the following types of companies that provide Internet access services:

- established online service and content providers;
- independent national Internet service providers;
- national long-distance carriers;
- local telephone companies;
- numerous regional and local Internet service providers;
- computer hardware and software and other technology companies;
- cable operators and online cable services; and
- satellite communication services.

The Corporation expects that competition for subscribers will continue to intensify for the foreseeable future. Increased competition could result in additional sales and marketing expenses and user-acquisition costs and also could result in increased subscriber turnover and pressure to reduce the fee charged for the Corporation's service. There can be no assurance that the Corporation will be able to offset the effects of these increased costs, and the Corporation may not have the resources to continue to compete successfully. The ability of its competitors to acquire other Internet service providers or to enter into strategic alliances or joint ventures also could put the Corporation at a significant competitive disadvantage.

Competition to Provide Internet Access Services (Continued)

Existing competitors may take steps such as reducing their user fees, offering promotions for access services or bundling free access services with other product offerings.

In addition, telecommunications companies with far greater resources, distribution channels and brand awareness offer their own Internet access services to users. Since these companies have their own telecommunications network infrastructure, they have lower communications costs than the Corporation. These advantages reduce the overall cost of Internet access for such companies and may significantly increase competitive pressures on the Corporation.

The Corporation also faces competition from companies that provide broadband Internet access, including telecommunication companies, cable television companies and wireless communications companies. The Corporation's service is offered via dial-up modems, which are limited to access speeds of up to 56 kbps. Broadband technologies enable users to transmit and receive print, video, voice and data in digital form at significantly faster access speeds. The Corporation may have to develop new technologies or add broadband access services to remain competitive, which could require substantial time and expense. The Corporation cannot be certain that it will succeed in adapting its Internet access service business to compete effectively with these technologies.

The telecommunication, cable and other companies that own broadband networks may prevent the Corporation from offering broadband Internet access through the wire and cable networks that they own. The Corporation's ability to compete with telephone and cable television companies that are able to support broadband transmission may depend on future regulation to guarantee open access to their broadband networks.

The Corporation has engaged in negotiations with Canadian telecommunications companies to provide broadband service. However, to date the Corporation has been unable to conclude an arrangement that would allow it to offer a broadband service at a competitive price. Management of Cybersurf believes that certain Canadian telecommunication companies are engaging in activities that inhibit competition and our company has participated in the filing of a complaint with the Canadian Radio-television and Telecommunications Commission ("CRTC") alleging, among other things, anti-competitive practices and predatory pricing. There can be no assurance that the CRTC will issue a ruling that is favorable to the Corporation and, absent such a ruling, the Corporation may not be able to provide broadband services at a competitive price at any time in the foreseeable future. The inability of the Corporation to enter the broadband market may limit its ability to attract subscribers.

Software and Hardware Defects

The software and hardware used to operate and provide the Corporation's services is complex and, accordingly, may contain undetected errors or failures. The Corporation has in the past encountered, and may in the future encounter, errors in the software or hardware used to operate and provide its services. Such occurrences have resulted in, and may in the future result in, a number of adverse consequences, including:

- users being disconnected from 3web Corp.'s service or being unable to access its service;
- loss of data or revenue;
- injury to reputation; and
- diversion of development resources.

The Corporation has experienced some technical and customer support issues associated with its software and services. These issues have resulted in some subscribers terminating their subscription accounts.

Ability to Protect Proprietary Rights

If the Corporation is not able to protect its proprietary rights, it may not be able to compete effectively. The Corporation principally relies upon copyright, trade secret, and contract laws to protect its proprietary technology. The Corporation cannot be certain that it has taken adequate steps to prevent misappropriation of its technology or that competitors independently will not develop technologies that are substantially equivalent or superior to the Corporation's technology.

Potential Liability in Connection with Termination of Free Internet Service

During the summer of 2001, 3web Corp. terminated its free Internet access service. Prior to this termination, management consulted with legal counsel and determined that the termination of the free service was within 3web Corp.'s rights as the provider of such service. There can be no assurance that a subscriber to the free service or group of subscribers will not assert claims against the Corporation for, among other things, breach of contract or misleading advertising. In the event that any such claim was successful, the Corporation could be required to pay damages and/or reinstitute its free service, either or both of which could have a material adverse effect on the Corporation's business, results of operations and financial condition. In addition, the Corporation could incur substantial costs and diversion of management resources in the defense of any claims, regardless of their merit.

Reliance on Third-Party Suppliers

The operation of the Corporation's fee-based Internet access service requires the accurate operation of billing system software by the Corporation, the provision of services by third-party vendors and the development of policies designed to reduce the incidence of credit card fraud and other forms of uncollectible "chargebacks". The Corporation has a limited history of operating these systems and relationship with these vendors. If the Corporation encounters significant difficulties with these vendors or the operation of these systems, or if errors, defects or malfunctions occur in the operation of these systems, such events could result in erroneous overcharges to customers or in the under-collection of revenue, either of which would hurt the Corporation's business and financial results.

Dependence on Key Employees

The Corporation's business is largely dependent on the personal efforts and abilities of its senior management and other key personnel. Paul Mercia, President and Chief Executive Officer is a co-founder of the Corporation and is instrumental in the strategic vision and planning of the Corporation. Each of the executive officers are important members of the senior management team and bring forth valuable skills and abilities. Any of Cybersurf's officers or employees can terminate his or her employment relationship at any time. The loss of these key employees or the Corporation's inability to attract or retain other qualified employees could seriously harm the Corporation's business and prospects.

Risks Associated with Growth

Given the rapid growth and overall development that the Corporation has experienced over the past several years, it is essential that its internal controls, operating systems, and management's acumen continue to keep pace with the demands of the marketplace.

Risk of Natural Disaster

The Corporation's equipment and the telecommunications infrastructure of its third-party network providers are vulnerable to damage from fire, earthquakes, power loss, telecommunications failures, and similar events. The Corporation has experienced situations where power loss and telecommunications failures have adversely impacted service, although to date such failures have not been material to its operations. All critical equipment dedicated to our Internet access service is located at our headquarters in Calgary, Alberta. A natural disaster or other unanticipated problem at our headquarters or within a third-party network provider's network could cause interruptions in the services that the Corporation provides. The Corporation's systems are not redundant. Any prolonged disruption of the Corporation's Internet access service due to system failure could result in subscriber account terminations and decreased revenues.

Demand for Cybersurf Technologies Corp.'s Products and Services

The demand for the products and services that are under development by Cybersurf Technologies Corp. is constantly evolving and the market is becoming increasingly competitive. Cybersurf Technologies Corp.'s growth depends upon its ability to create, develop and commercialize its products and services. The contraction of the dot-com sector during the past two years has had a significant impact on the demand for the products and services under development by Cybersurf Technologies Corp.

Outlook

The following discussion is based on current expectations of management of the Corporation and the actual results may differ from those discussed below.

Fiscal 2001 represented a year of transition for the Corporation as we moved from being a provider of free Internet access to charging a fee for such service. The dramatic decline experienced by the online advertising industry affected not only the Corporation, but all other free Internet service providers as well, all of which commenced charging a fee for their services, terminated their services entirely or reduced the quality of their offerings.

Management believes that the Corporation's businesses have certain strategic competitive advantages that, under the current business model, will make fiscal 2002 a defining year for the Corporation. These competitive advantages include a base of free subscribers from which to attract paying subscribers; a national network; experience in the rapid growth and operation of an Internet access service; and, as a result of operating such service, a platform to showcase the software technologies developed by the Corporation for the global market.

These advantages, in conjunction with our revised business model, leave management confident that the Corporation has the potential to succeed as one of the industry's leaders.

Paul Mercia

President, C.E.O., Director

Having founded Cybersurf in 1994, Mr. Mercia is the leading force behind the development and implementation of the company's long-term business strategy. Mr. Mercia maintains an active role in the continuing development of Cybersurf's innovative technologies. Prior to becoming C.E.O. in July of 1999, Mr. Mercia served as Cybersurf's President and C.T.O.

Mr. Mercia has been the intellectual architect behind Cybersurf's proprietary software applications. Most recently, he led the initiative to plan, develop and successfully launch 3webXS, Cybersurf's premium, unlimited fee-based Internet service. Mr. Mercia also has been the driving force behind the development of Cybersurf's Mimica animation software and the continuous evolution of the proprietary technologies developed for and used in the 3webXS service.

Mr. Mercia has many years' experience with and intimate knowledge of Internet related technologies, new media marketing and Internet-based consumer applications, and has developed proprietary communications software and database management applications.

Stephen P. Monk, P.Eng., B.Sc., M.B.A., LL.B.

Executive Vice President Corporate Development, Director

Mr. Monk has primary responsibility for the successful execution of the company's long-term business strategy. Mr. Monk also is responsible for new strategic initiatives, and for maintaining the company's existing corporate relationships, including the partnerships with Call-Net and Mesoamerica. Before joining Cybersurf's management team, Mr. Monk worked in corporate development for Call-Net Enterprises Inc. Prior to this, Mr. Monk served as a corporate and securities lawyer at Davies, Ward and Beck.

Mr. Monk received his Master of Business Administration at the Richard Ivey School of Business, his Bachelor of Laws degree at the University of Western Ontario, and his Bachelor of Science in Electrical Engineering at Queen's University.

Steve Albanese

Vice President Network Services

Since Cybersurf's inception, Mr. Albanese has overseen all technical aspects of the company's expansive computer network. Included in Mr. Albanese's responsibilities is the management of the systems and servers that power 3web, and he has supervised the growth of the 3web network from a local Calgary-based ISP to a national service covering 22 cities across Canada and reaching more than 70% of the population.

Prior to joining Cybersurf, Mr. Albanese was employed at Lakehead University in Thunder Bay. He brings a high level of expertise in networking and computer technology to Cybersurf.

Michael J. Bellman, B.A., M.B.A., LL.B.

Vice President Business Alliances

Mr. Bellman is responsible for all high-level business development initiatives within Cybersurf, including co-branding, international licensing and other key strategic partnerships. Mr. Bellman also plays a primary role in the development of the company's business strategy.

Prior to joining Cybersurf, Mr. Bellman was a member of the corporate/securities practice group at Fogler, Rubinoff LLP, where he was admitted to the partnership as an income partner in January of 2000. Prior to joining that firm, Mr. Bellman was an associate lawyer with Gowling, Strathy & Henderson.

Mr. Bellman received his Bachelor of Arts at the University of Western Ontario, his Bachelor of Laws at Osgoode Hall Law School, and his Master of Business Administration at the Schulich School of Business.

Jason Finney, Dip., I.M.C.

Vice President Interactive Media, Calgary

Mr. Finney is responsible for the design and maintenance of all visual aspects of 3web. As well, Mr. Finney oversees all digital design elements related to 3web's co-branding initiatives. His department also develops a variety of interactive media design materials for external client companies. Mr. Finney comes to Cybersurf with a diverse and extensive new media design skill set, primarily in the fields of computer gaming technology and software development.

A graduate of Interactive Multimedia Technology, Mr. Finney is skilled in various new media disciplines, including 3D modeling, computer animation, website development and multimedia authoring.

Sean Mellis, Dip., A.C.A.D.

Vice President Interactive Media, Toronto

Mr. Mellis manages the company's Interactive Media division in Toronto, and also is responsible for all corporate communications, branding and media relations aspects of Cybersurf. Mr. Mellis oversees the bulk of all external advertising design and marketing initiatives for Cybersurf, Cybersurf Technologies and 3web.

Prior to joining Cybersurf in 1996, Mr. Mellis was involved in several new media ventures, including forming his own freelance illustration and design studio, and co-founding and marketing an online computer gaming company. Mr. Mellis is a graduate of the Alberta College of Art and Design's Visual Communications program.

Carmen Morris, B.Comm., C.M.A.

Vice President Finance

Mr. Morris is responsible for managing the accounting, financial reporting and administrative aspects of Cybersurf. With over 20 years' experience in accounting and finance, Mr. Morris has been instrumental in implementing accounting and reporting systems during Cybersurf's rapid growth and evolution.

Mr. Morris has assumed a leadership role in many of the cost-cutting and revenue-enhancing activities of the company during the past year. In addition to his responsibilities in accounting and finance, Mr. Morris has assumed an active leadership role in the successful completion of many of Cybersurf's projects.

Mr. Morris holds a Certified Management Accounting designation and a Bachelor of Commerce degree in Finance.

Jill C. Schatz, J.D., M.B.A., LL.M.

General Counsel, Vice President Law

Ms. Schatz is responsible for all in-house legal requirements of Cybersurf Corp., Cybersurf Technologies Corp. and 3web Corp. Before joining Cybersurf, Ms. Schatz acted as Legal Counsel for ICI Canada Inc. (formerly C-I-L Inc.). Prior thereto, she was in-house counsel for TransCanada PipeLines Limited.

In addition to her duties at Cybersurf Corp., Ms. Schatz is currently the President of the Canadian Corporate Counsel Association. Ms. Schatz obtained her J.D. and M.B.A. degrees from the University of Toronto, and her LL.M. from York University.

Liliane Vidicek, B.F.A., B.Ed.

Vice President Sales and Marketing

Ms. Vidicek is responsible for advertising revenue development as well as strategic marketing and customer acquisition initiatives for 3web. Ms. Vidicek joins Cybersurf from 24/7 Media Canada (formerly ClickThrough Interactive), Canada's leading advertising network. As Vice President Sales at 24/7, Ms. Vidicek was instrumental in establishing the company as the largest, most successful Canadian network of Internet sites.

A specialist in evaluating areas of untapped sales and profit potential, Ms. Vidicek has spent the past 17 years enhancing the bottom lines of companies such as Omni, THE NATIONAL POSTER COMPANY, The Globe and Mail, The Media Book and Financial Times. Ms. Vidicek has obtained her B.F.A. and B.Ed. from Concordia University in Montreal.

Lorne Jacobson

Director

Mr. Jacobson is the President of TriWest Capital Partners Inc., a Calgary based leveraged buyout firm that provides growth capital and financing for management buyouts with private equity. Mr. Jacobson also is Executive Vice President of Nuburn Capital Corporation, a Calgary based, privately held merchant banking firm, which is the successor entity to Burns Foods (1985) Limited. Prior thereto, Mr. Jacobson was a partner with the national law firm of Bennett Jones Verchere, Barristers and Solicitors.

Alejandro Lozano

Director

Mr. Lozano serves as Managing Director of Mesoamerica Investments, located in San Jose, Costa Rica. Mr. Lozano has been involved closely with Cybersurf since helping to orchestrate a joint venture between Cybersurf and Latin Net S.A., a Mesoamerica-controlled company, created to introduce Cybersurf's Internet technologies to Latin America.

Possessing over ten years' corporate finance experience, Mr. Lozano has worked in the United Kingdom, Spain, the United States and the Far East for corporations such as Bain & Company and Eli Lilly.

Mr. Lozano has an undergraduate degree from ICADE, Madrid, and a Master of Business Administration from INSEAD in Fontainebleau, France.

James Milliken

Director

Mr. Milliken has been active in the Canadian securities industry for over 40 years. He is a director of several public companies, and is a former president of the Alberta Stock Exchange and Sanyo Securities Canada Limited.

For the past several years, Mr. Milliken has been an associate of the Lomax Group Inc., an Alberta based consulting and advisory organization specializing in mergers and acquisitions.

Jay Roberge

Director

Mr. Roberge is C.E.O., President and Director of Knowledge Networks Inc., a publicly traded wireless software infrastructure company. Mr. Roberge also is the Chairman of Tehama Ventures, a venture catalyst company based in Vancouver. Mr. Roberge brings over 12 years of business experience primarily in the technology sector to the Cybersurf Board. As Vice President Sales and Marketing, Mr. Roberge played a key role in building Canada Internet Direct.

Mr. Roberge sits on the board of directors for a number of private and publicly traded high tech companies in both the U.S. and Canada, including: Noise Media Inc. (CDNX), a full service provider of new media and interactive media solutions; Alta Terra Ventures Inc. (CDNX), a Linux based software development company; and Printlux Inc., a full service print, eprocurement and efulfillment company.

AUDITORS' REPORT TO THE SHAREHOLDERS OF CYBERSURF CORP.

We have audited the consolidated balance sheets of Cybersurf Corp. as at June 30, 2001 and 2000 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
August 21, 2001

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
YEARS ENDED JUNE 30, 2001 AND 2000

	2001 $	2000 $
Revenue	4,304,903	2,509,366
Expenses		
Operating		
Communication costs, salaries and benefits	10,122,949	6,438,444
Depreciation and amortization	1,646,668	1,526,876
General and administrative, marketing and selling	6,580,279	2,952,438
Interest on obligations under capital lease	127,730	136,611
	18,477,626	11,054,369
Loss before income taxes and non-controlling interest	(14,172,723)	(8,545,003)
Income tax		
Large corporation tax	11,962	44,386
Loss before non-controlling interest	(14,184,685)	(8,589,389)
Share of non-controlling interest in subsidiaries' activities	(126,741)	-
Net loss	(14,057,944)	(8,589,389)
Deficit, beginning of year	(10,183,781)	(1,594,392)
Deficit, end of year	(24,241,725)	(10,183,781)
Loss per share (Note 10)		
Basic	(0.44)	(0.34)

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND 2000

	2001 $	2000 $
Assets		
Current		
Cash and short-term deposits	12,287,024	22,794,963
Accounts receivable	999,206	1,459,806
Inventory	-	221,792
Prepaid expenses and term deposits (Note 3)	906,641	4,698,083
	14,192,871	29,174,644
Capital assets (Note 5)	2,330,808	2,870,206
Deferred development costs (Note 6)	182,603	38,103
Other assets	63,853	36,970
Investments, at cost	-	15,000
	16,770,135	32,134,923
Liabilities		
Current		
Accounts payable and accrued liabilities	428,953	1,295,664
Income taxes payable	20,164	44,386
Current portion of due to director (Note 7)	-	11,673
Current portion of obligations under capital lease (Note 8)	574,536	504,236
Deferred revenue	22,427	73,186
	1,046,080	1,929,145
Obligations under capital lease (Note 8)	-	574,536
	1,046,080	2,503,681
Non-controlling interest	44,507	-
Shareholders' Equity		
Share capital (Note 9)	39,896,108	39,815,023
Contributed surplus (Note 9)	25,165	-
Deficit	(24,241,725)	(10,183,781)
	15,679,548	29,631,242
	16,770,135	32,134,923

On Behalf of the Board

Paul Mercia
Director

Lorne Jacobson
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2001 AND 2000

	2001 $	2000 $
Cash Flows Relating to the Following Activities:		
Operating		
Net loss	(14,057,944)	(8,589,389)
Adjustments for:		
Depreciation and amortization	1,646,668	1,526,876
Share of non-controlling interest in subsidiaries' activities	126,741	-
	(12,284,535)	(7,062,513)
Changes in non-cash working capital		
Accounts receivable	460,600	408,691
Inventory	221,792	(120,993)
Prepaid expenses and deposits	3,791,442	(4,683,859)
Accounts payable and accrued liabilities	(866,711)	897,464
Income taxes payable	(24,222)	44,386
Deferred revenue	(50,759)	73,186
	(8,752,393)	(10,443,638)
Financing		
Repayment of short-term notes	(11,673)	(135,458)
Capital lease payments	(504,236)	-
Issue of share capital, net of repurchases	106,250	35,809,597
	(409,659)	35,674,139
Investing		
Purchasing of capital assets	(1,018,920)	(2,399,901)
Deferred development costs	(231,294)	(45,351)
Purchase of other assets	(28,439)	(35,768)
Advances to subsidiary companies	(67,234)	-
	(1,345,887)	(2,481,020)
Net (Decrease) Increase in Cash and Cash Equivalents	(10,507,939)	22,749,481
Cash and Cash Equivalents, Beginning of Year	22,794,963	45,482
Cash and Cash Equivalents, End of Year	12,287,024	22,794,963
Cash and cash equivalents are comprised of:		
Cash	-	478,250
Bank indebtedness	(110,606)	-
Short-term deposits	12,397,630	22,316,713
	12,287,024	22,794,963
Supplementary information		
Cash interest paid	127,730	123,363
Cash interest received	1,071,884	957,099
Cash Outflow from Operations Per Share (Note 10)		
Basic	(0.39)	(0.28)

1. Description of Business

Cybersurf Corp. (the "Company") creates Internet technology solutions and provides Internet access.

2. Significant Accounting Policies

Management is responsible for the preparation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using appropriate accounting policies, methods and estimates as selected by management giving consideration to the Company's circumstances.

Revenue recognition

Advertising revenue relating to 3web, the Company's Internet service to subscribers, is recognized when the advertiser has been provided with exposure to the Company's user base.

Subscription revenue is recognized in the month that the service is provided. Prepaid subscription revenue is deferred and later recognized in the month that Internet service is provided.

Revenue relating to the sale of licences is recognized at the time the developed software is delivered and to the extent that collectability is reasonably assured.

Revenue derived from management service contracts is recognized as the services are provided and to the extent collectability is reasonably assured.

Inventory

Inventory of 3web installation CD-ROMs and advanced networking equipment is valued at the lower of cost and net realizable value.

Basis of presentation

The consolidated financial statements include the consolidated accounts of the Company and its wholly owned subsidiaries, Cybersurf Technologies Corp. and 3web Corp., which were incorporated during the year.

Also included are Cybersurf LA Holdings Ltd., of which the Company owns 50%, and Cybersurf US Holdings Ltd. and Cybersurf Euro Holdings Ltd., of which the Company increased its ownership to 51% in the current year.

Capital assets

Capital assets are recorded at cost and are depreciated using the declining-balance method at the following rates:

Signage	15%
Furniture and equipment	20%
Computer hardware under capital lease	20%
Computer hardware	30%
Computer software	100%
Leasehold improvements	term of lease

Capital assets acquired during the year are depreciated at one half of the above rates and there is no depreciation recorded on capital assets in the year of disposition.

Deferred development costs

Product and software development costs related to certain of the Company's targeted markets are capitalized until development has been completed and will be amortized against revenues arising from those particular markets or over two years, whichever is shorter.

Use of estimates

The amounts recorded for deferred development costs, deferred revenue and depreciation of capital assets are based upon estimates. By their nature, these estimates are based upon uncertainty and the effect of the financial statements of changes in such estimates in future periods could be significant.

3. Prepaid Expenses and Deposits

On July 19, 1999, the Company prepaid for wholesale network services amounting to $7,000,000 (see Note 9(d)) of which $3,104,215 was utilized in the fiscal year ended June 30, 2001, and $3,097,202 was utilized in fiscal year 2000. The balance remaining on the prepaid wholesale network services is $798,583. The Company expects to use all of the prepaid network services within the next fiscal year.

4. Long-Term Note Receivable

The Company entered into an agreement on February 24, 1998 to sell the Calgary software licence for 3web to Nuburn Capital Corporation ("Nuburn") for proceeds of $4 million. The licence provides Nuburn with the right to revenues derived in Calgary from 3web. Nuburn paid cash consideration of $1 million, which was recognized as revenue upon execution of the agreement, and signed an acquisition promissory note for the remaining balance of $3 million.

4. Long-Term Note Receivable (Continued)

No portion of the initial cash receipt of $1 million from Nuburn has been deferred because in the opinion of management, it is probable the Company's share of estimated future advertising revenue will exceed the costs with respect to future marketing and development. The promissory note bears interest at 5% per annum, interest payable on March 31st of each year, which commenced in 1999. In July of 1999, the Company acquired an option to repurchase the licence for $6,200,000.

For accounting purposes, the promissory notes receivable and the corresponding deferred revenue have not been reflected on the balance sheet to more appropriately reflect the contingent nature of the revenue source for the repayment of the notes. The contingent nature of the revenue source is due primarily to the reduced demand for Internet advertising. Revenue from the sale of the licence will be recognized in the same period when collectability on the notes receivable is reasonably assured. For the year ended June 30, 2001, $105,272 (2000 - $73,897) was recognized.

In addition, the Company has entered into a separate long-term, incentive-based management agreement, for a term of 15 years (ending 2013), with Nuburn. The Company is to receive a 30% share of Nuburn's 3web revenues as payment towards the promissory note. The promissory note balance is to be paid in full by February 24, 2013. In the event that a balance remains of the promissory note after this date, the Company will forfeit any balance outstanding, and the Company is also to receive 35% of such revenues to cover marketing and development costs.

The revenues to date on the Calgary licence have been less than anticipated and are insufficient to cover the interest on the promissory note. The Company, for the year ended June 30, 2000, had made a provision for the accrued interest due to uncertainty of collection. As of June 30, 2001, the Company had accrued interest receivable of $105,272 (2000 - $174,421). Due to the uncertainty as to the collection, the Company has provided an allowance of $Nil (2000 - $174,421) against this receivable. During the year, the Company had received $105,272 (2000 - $73,897) towards interest earned and these amounts have been included in income. In future, the Company will record interest on the promissory notes only when collection is reasonably assured.

The Company entered into an agreement on December 15, 1998 to sell the Edmonton software licence for 3web to Growth Technologies '98 Limited Partnership ("Growth Tech"), for proceeds of $4.18 million. Growth Tech paid cash consideration of $1,969,000 which was recognized as revenue upon execution of the agreement, and signed an acquisition promissory note for the remaining balance of $2,211,000.

On April 27, 2001, the Company entered into a settlement agreement with respect to litigation with Growth Tech. This agreement effectively cancelled the long-term note receivable due from Growth Tech on the sale of the Edmonton licence.

In addition, effective March 1, 2001, the Company entered into a marketing agreement with Growth Tech to market, develop and distribute 3web in the Edmonton market. As compensation for these services the Company receives 10% of adjusted gross sales from 3web advertising revenue and a further 40% in the case of 3web Gateway advertising revenue as a management fee, and 30% of adjusted gross sales from 3web advertising revenue as a service fee, and retains certain other revenues. This agreement carries a 15 year term.

5. Capital Assets

	2001		
	Cost $	Accumulated Depreciation $	Net Book Value $
Signage	9,369	1,823	7,546
Furniture	504,685	70,079	434,606
Computer hardware under capital lease	1,046,697	116,299	930,398
Computer hardware	749,953	127,440	622,513
Computer software	669,586	535,985	133,601
Leasehold improvements	237,517	35,373	202,144
	3,217,807	886,999	2,330,808

In the current year, capital asset additions amounted to $1,018,425 (2000 - $3,339,276) and the amount of additions net of associated capital lease obligations were $1,018,425 (2000 - $2,399,901).

	2000		
	Cost $	Accumulated Depreciation $	Net Book Value $
Signage	8,111	608	7,503
Furniture	351,467	69,239	282,228
Computer hardware under capital lease	1,438,030	275,034	1,162,996
Computer hardware	1,166,476	614,760	551,716
Computer software	1,818,015	980,868	837,147
Leasehold improvements	32,592	3,976	28,616
	4,814,691	1,944,485	2,870,206

6. Deferred Development Costs

	2001 $	2000 $
Balance, beginning of year	38,103	177,671
Additions	231,294	45,351
	269,397	223,022
Amortization	86,794	184,919
Balance, end of year	182,603	38,103

7. Due to Director

	2001 $	2000 $
71/2% note payable, due April 2001, repayable in monthly installments of $975 blended principal and interest	-	11,673
	-	11,673
Less current portion	-	11,673
	-	-

8. Obligations under Capital Lease

The following minimum lease payments are payable in each of the succeeding fiscal years:	2001 $	2000 $
2001	-	631,679
2002	630,186	630,186
	630,186	1,261,865
Less amount representing interest (ranging from 7% to 16%)	55,650	183,093
Balance of obligation	574,536	1,078,772
Less current portion	574,536	504,236
	-	574,536

9. Share Capital

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

	Number of Shares	Amount $
I. Common shares Issued and outstanding, June 30, 1999	20,080,792	4,005,426
Private placements	1,724,138	4,960,000
Warrants exercised (Note 9(a))	1,243,733	742,240
Special warrants exercised (Note 9(e))	8,335,000	22,964,892
Employee stock options exercised	114,250	142,465
Issued and outstanding, June 30, 2000	31,497,913	32,815,023
Repurchased and cancelled (Note 9(c))	(35,000)	(40,915)
Employee stock options exercised	657,500	122,000
Issued and outstanding, June 30, 2001	32,120,413	32,896,108
II. Common share purchase warrants Issued and outstanding, June 30, 1999	-	-
Common share purchase warrants issued (Note 9(d))	7,000,000	7,000,000
Issued and outstanding, June 30, 2000 and 2001		
	7,000,000	7,000,000
III. Special warrants Issued and outstanding, June 30, 1999	-	-
Special warrants issued (Note 9(e))	8,335,000	22,964,892
Underwriter warrants (Note 9(e))	833,500	-
Special warrants exercised (Note 9(e))	(8,335,000)	(22,964,892)
Issued and outstanding, June 30, 2000 and 2001	833,500	-
		39,896,108

9. Share Capital (Continued)

a) The Company had at June 30, 1999, 1,243,733 warrants and rights outstanding at prices ranging from $0.50 to $0.60. These warrants and rights were exercised prior to their expiry at August 31, 1999 for one common share each.

b) The Company has 182,064 common shares held in escrow pursuant to an escrow agreement dated March 22, 1996. The Company is currently applying for the release of the remaining escrowed shares. The release of these shares is to take place on January 1, 2002.

c) In March of 2001, the Company purchased and subsequently cancelled 35,000 of its common shares. The cost of the share purchase was $15,750 and the average cost of the shares cancelled as at the date of repurchase was $40,915. The difference was charged to contributed surplus.

d) On July 19, 1999, the Company entered into an agreement with the supplier of wholesale network services. Under the terms of the agreement, the Company received $12,000,000 cash of which $7,000,000 was paid by the Company for prepaid wholesale network services. In return, the supplier received 1,724,138 common shares for a total consideration of $5,000,000 and 7,000,000 common share purchase warrants for the remaining $7,000,000. Each common share purchase warrant entitles the holder to purchase one common share at a price of $5.00 until July 19, 2002.

e) The Company completed a private placement on December 21, 1999 of 8,335,000 special warrants at a price of $3.00 per special warrant for net proceeds of $22,964,892, net of issue costs and commissions of $2,040,108. On March 17, 2000, the Company filed a prospectus qualifying the distribution of 8,335,000 common shares of the Company upon exercise or deemed exercise of the 8,335,000 special warrants previously issued.

As additional compensation in connection with the issue and sale of special warrants, the underwriters received 833,500 compensation warrants of the Company. Each compensation warrant is exercisable, for no additional consideration, into one compensation option. Each compensation option entitles the holder to purchase one common share at a price of $3.00 on or before December 21, 2001, and they remain outstanding at June 30, 2000.

9. Share Capital (Continued)

f) The shareholders of the Company have approved the granting of options for employees, officers and directors of the Company pursuant to a stock option plan at the Company's annual shareholder meeting held on December 19, 2000. The Company has outstanding options to purchase 1,692,717 common shares of the Company, at option prices ranging from $0.20 to $1.50. These options expire at various dates through to April 2005.

	2001		2000	
	Share Options	Weighted Average Exercise Price $	Share Options	Weighted Average Exercise Price $
Outstanding, beginning of year	2,352,500	0.78	1,784,275	1.24
Granted	790,227	0.18	689,975	1.25
Exercised	(657,500)	0.19	(114,250)	0.50
Cancelled	(792,510)	-	(7,500)	-
Outstanding, end of year	1,692,717	0.70	2,352,500	0.78
Exercisable, end of year	1,692,717	0.70	2,352,500	0.78

9. Share Capital (Continued)

Options outstanding and exercisable

Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price $
$0.12 to $0.40	921,640	0.22
$0.50 to $1.00	12,500	0.50
$1.00 to $1.25	458,577	1.24
$1.37 to $1.50	300,000	1.37
	1,692,717	0.70

10. Loss and Cash Outflow from Operations per Share

The loss and cash flow from operations per share basic figures are calculated using the weighted average number of common shares outstanding during the year and the fully diluted weighted average number of shares includes common share purchase warrants, special warrants and Company stock options as follows:

	2001	2000
Basic	31,864,962	25,134,525
Diluted	41,126,518	41,570,163

Diluted loss and cash outflow from operations per share is not disclosed for the year ended June 30, 2001 as the exercise of common share purchase warrants, special warrants and Company stock options is anti-dilutive.

11. Income Taxes

As at June 30, 2001, the Company has non-capital losses of approximately $20,897,000 available to reduce future taxable income. These losses expire as follows:

	$
2003	471,000
2004	703,000
2005	117,000
2007	7,089,000
2008	12,517,000

No recognition has been given in the consolidated financial statements to any potential tax benefits that may arise from utilization of these losses.

12. Commitments

The Company has entered into various lease agreements for business premises for various terms until February 2005. The Company entered into a second business premises lease agreement in Calgary of which the payments commenced January 1, 2000. The Company also entered into a lease agreement in Toronto of which the payments commenced March 1, 2000. Annual lease payments with respect to these leases and other operating leases are as follows:

	$
2002	441,979
2003	441,979
2004	253,840
2005	18,600

13. Segment Disclosure

During the year ended June 30, 2001, the Company discontinued its Cybersurf Advanced Networking ("CYAN") segment and focused solely on the Cybersurf Interactive Media ("CIM") segment - which is further broken down into the 3web and Cybersurf Technologies ("CYT") segments. 3web provides Internet access and CYT develops and markets a broad range of software products and software related services.

	2001		
	CYT $	3web $	Total $
Revenue	832,239	2,398,956	3,231,195
Operating expenses	(848,058)	(9,274,891)	(10,122,949)
Amortization of capital assets, deferred development costs and goodwill	(206,038)	(1,440,630)	(1,646,668)
Segmented operating loss	(221,857)	(8,316,565)	(8,538,422)
General and administrative, marketing and selling expenses			(6,580,279)
Interest income			1,073,708
Income taxes - Large corporation tax			(11,962)
Share of non-controlling interest in subsidiaries' activities			126,741
Interest expense			(127,730)
Net loss			(14,057,944)
Identifiable assets	433,314	1,897,494	2,330,808
Capital expenditures	267,905	751,015	1,018,920

13. Segment Disclosure (Continued)

	2000		
	CYAN $	CIM $	Total $
Revenue	20,092	1,519,217	1,539,309
Operating expenses	(105,425)	(6,333,019)	(6,438,444)
Amortization of capital assets, deferred development costs and goodwill	(494,121)	(1,066,321)	(1,560,442)
Segmented operating loss	(579,454)	(5,880,123)	(6,459,577)
General and administrative, marketing and selling expenses			(2,952,438)
Interest income			970,057
Interest expense			(136,611)
Net loss			(8,578,569)
Identifiable assets	190,881	2,645,759	2,836,640
Capital expenditures	-	3,496,361	3,496,361

14. Contingencies

A statement of claim has been filed against the Company by a former employee seeking damages of approximately $120,000. The claim is for lost salary and loss in value of the defendant's stock. Management believes the claim is unfounded, however, since legal discoveries have yet to take place, the outcome is indeterminable at this time.

No provision has been accrued for in the accounts of the Company for any potential loss on the aforementioned claim.

15. Related Party Transaction

Included in accounts receivable is a loan to an officer and director of the Company amounting to $317,349 (2000 - $176,000). This loan is due on demand and bears interest annually at 4.25%.

16. Financial Instruments

Carrying values of cash and short-term deposits, accounts receivable and accounts payable and accrued liabilities approximated their fair value due to the short-term nature of these accounts. The Company is exposed to credit risk to the extent that its customers may experience financial difficulty and would be unable to meet their obligations. However, the Company has a large number of diverse customers which minimizes concentrations of credit risk. The carrying value of the obligations under capital lease approximates its fair value due to the cost of borrowing approximating the market rate for similar debt instruments.

17. Comparative Figures

Some of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

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